

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6883**

**BILL NUMBER: SB 402**

**NOTE PREPARED: Jan 8, 2009**

**BILL AMENDED:**

**SUBJECT:** Local Option Taxes for Counties, Cities, and Towns.

**FIRST AUTHOR:** Sen. Head

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED: X GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** *Municipal Option Income Tax:* This bill allows cities and towns, except Indianapolis, to adopt a municipal income tax on individuals who reside within the municipality, regardless of their place of employment. It provides that the maximum rate is 1%. It requires the revenue to be deposited in the municipality's general fund, and allows the municipality to use the revenue for any general fund purpose. It requires the tax to be re-adopted every four years using a ratification ordinance.

*Local Option Sales Tax:* The bill allows counties, cities, and towns to adopt a local sales tax applicable to tangible personal property delivered within the geographic boundaries of the political subdivision. It requires the tax to be re-adopted every four years using a ratification ordinance. It provides that the local option sales tax revenue may be used for any lawful purpose.

*Department of State Revenue:* The bill provides that the Department of State Revenue shall maintain several data bases of local sales tax data associated with the local option sales tax, in accordance with the requirements of the Streamlined Sales and Use Tax Agreement. It adds the municipal option income tax and local option sales tax to the list of local taxes that may be captured by the state in the case of a local unit failing to make timely debt payments and sources of revenue that may be used by the local unit to make debt service payments. The bill also requires, beginning with the individual income tax return for 2010, the Department of State Revenue to include on the adjusted gross income tax return a requirement that the taxpayer identify the city or town, if any, where the taxpayer's principal place of residence is located.

**Effective Date:** July 1, 2010.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) will incur additional

expenses to revise tax forms, instructions, and computer programs to implement collection of the municipal option income tax and the local option sales tax. The DOR also will have to include on all Individual Adjusted Gross Income Tax returns for 2010 a request that each taxpayer identify the municipality where the taxpayer's principal place of residence is located. The DOR also will realize additional administrative responsibilities in maintaining databases of local sales tax data in compliance with the Streamlined Sales and Use Tax Agreement.

The State Budget Agency will realize additional administrative responsibilities in administering the distribution of revenue to municipalities from the municipal option income tax.

Both agencies should be able to implement these responsibilities with current resources.

### **Explanation of State Revenues:**

### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** *Municipal Option Income Tax:* The bill permits municipalities (cities and towns), except for those in Marion County, to impose a municipal option income tax beginning October 1, 2011. A municipality's income tax would be imposed on individuals who are residents of that municipality. The municipal option income tax rate could be imposed in increments of 0.1% up to a maximum tax rate 1%. Since income and income tax data are not available at the municipal level, the yield that could be generated by municipal option income taxes is indeterminable. It is estimated that an additional statewide 1% income tax could generate approximately \$1,102.1 M in FY 2011 and \$1,149.1 M in FY 2012.

The municipal option income tax is in effect from October 1st to September 30th. To impose, increase or decrease, or rescind a municipal option income tax effective October 1st, a municipal fiscal body must adopt an ordinance to do so between March 31st and August 1st of the same year. The tax remains in effect until earlier of: (1) the date the tax is rescinded by the fiscal body; or (2) September 30th of the 4th year after the later of the year the tax was imposed, the year the tax rate was last changed, or the year a ratification ordinance was previously adopted. Before adopting an ordinance on a municipal option income tax, the fiscal body must hold at least one public hearing. The bill allows municipal option income tax revenue to be used for any general fund purpose.

*Local Option Sales Tax:* The bill permits counties and municipalities (cities and towns) to impose a local option sales tax. Under the bill, the local option sales tax could potentially be imposed for the first time in the 4<sup>th</sup> quarter of 2010. The rate of the tax must be specified in the county or municipal ordinance imposing the tax and the bill does not specify maximum limit for the tax rate. The tax would be administered the same as the state sales tax. The county or municipal ordinance imposing the local option sales tax must specify when the tax takes effect which, under the bill, must be on the first day of a calendar quarter and must be at least 60 days after the ordinance is adopted. Before adopting an ordinance on a local option sales tax, the county fiscal body or municipal fiscal body proposing the tax must hold at least one public hearing. The revenue from the local option sales tax would be distributed monthly. The bill allows the revenues collected from the tax to be used for any lawful county or municipal purpose. It is estimated that an additional statewide 1% sales tax could generate approximately \$746.4 M in FY 2011 and \$775.5 M in FY 2012.

**State Agencies Affected:** Department of State Revenue; State Budget Agency; Department of Local Government Finance; Auditor of State.

**Local Agencies Affected:** Counties, cities and towns.

**Information Sources:** Revenue Technical Committee Forecast (December 15, 2009).

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